

By Express/First Class Mail; By E-Mail**Business Confidential Information  
Enclosed**

Ms. Gloria Blue  
Executive Secretary, TPSC  
Office of the United States Trade Representative  
600 Seventeenth Street, N.W.  
Washington, D.C. 20508

Re: *Potential Action Under Section 203 of the Trade Act of 1974 – Comments  
of Matsushita Refrigeration Company of America Concerning the Possible  
Exclusion of Specialty Non-Oriented Electrical Steel Products From Any  
Import Restrictions Imposed by the President*  
(In support of Nippon Steel's request X-061)

Dear Ms. Blue:

This letter is being submitted by Matsushita Refrigeration Company of America ("MARCA") to express its concern about the company's future ability to secure two specialty Non-Oriented Electrical Steel ("NOES") products and to request that the Trade Policy Staff Committee ("TPSC") recommend excluding these two specialty products from any import restrictions that the President may impose pursuant to Section 203 of the Trade Act of 1974. This letter is also being submitted to respond to, and correct, certain inaccurate claims that have been made by U.S. steel manufacturers concerning their ability to produce similar or identical products. Detailed technical descriptions of the specialty NOES products covered by this letter are provided below.<sup>1</sup>

MARCA, located in Vonore, Tennessee, is the one of the largest U.S. manufacturers of home refrigerator compressors. Serving approximately 30 percent of the U.S. market, MARCA employs approximately 330 workers. As explained below, the two products of concern to MARCA were custom-engineered and custom-manufactured for MARCA by Nippon Steel Corporation ("NSC"). These specialized products are identified by NSC as model numbers "MS-4K" and "MS-7." These two products, which are not available domestically, are critical to MARCA's ability to continue manufacturing motor cores for refrigerator compressors. If MARCA were unable to produce motor cores using these specialty NOES products, the potential negative impact on the business would be significant. Accordingly, we urge the TPSC to recommend the exclusion of these products from the scope of any import restrictions imposed by the President.

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<sup>1</sup> An exclusion for these specialty NOES products was requested by NSC in a letter to the TPSC dated November 13, 2001. A public version of NSC's request is available at [http://www.ustr.gov/sectors/industry/steel201/exclusion\\_requests.htm](http://www.ustr.gov/sectors/industry/steel201/exclusion_requests.htm) (exclusion request no. X-061-nippon-Exclusion2.pdf).

**I. General Product Description**

The two specialty NOES products at issue (MS-4K and MS-7) can be described generally as high-induction low core loss fully-processed NOES products with semi-organic insulation coating for stress relief annealing usage. This steel is utilized to manufacture motor cores for hermetic motors, which are used in air conditioners and refrigerator compressors. MARCA's U.S. customers include General Electric, Amana, WP and Maytag. Using the two specialty NOES products in the manufacture of these motor cores results in more efficient appliances and increased saving of energy resources.

**II. Technical Product Description**

The technical specifications for the two NOES products are as follows:

Magnetic and mechanical properties

	Maximum core loss after SRA* (w/kg at 15/50)	Minimum induction (B50)	Typical Hardness (Hv)	Chemical contents (Silicon, Manganese, Aluminum)	coating**
MS-4K	5.00	1.73	110	Si max 0.3, Mn max 0.5, Al min 0.5	semi-organic insulation coating
MS-7	3.50	1.70	124	Si max 1.3, Mn max 0.5, Al min 1.0	semi-organic insulation coating

\*SRA (Stress Relief Annealing) condition: 750 D x 2 hours under non-oxidizing atmosphere.

\*\*Coating: Semi-organic insulating coating whose composition is an organic base substance, but includes organic substances, and is used to improve both production efficiency and motor core properties.

- Organic contents contribute to improved punching quality, machinability, and weldability
- Inorganic contents contribute to improve insulation and prevent lamination sticking after annealing.

Standard "fully-processed" NOES products are fully annealed during production at a mill and have certain guaranteed magnetic properties – that is, if there is no additional processing at the customer's location. The specialty products manufactured by NSC, in contrast, are "fully-processed" materials which are annealed and coated (with semi-organic coating) at NSC prior to delivery to MARCA and are designed to develop the guaranteed magnetic properties after SRA at MARCA.

Currently, MARCA imports these products under a Harmonized Tariff System classification applicable to cold-rolled alloy steel product, HTS 7225.50.8085. Although these products are considered to be specialty electrical products, they are classified under a tariff classification applicable to cold-rolled alloy products due to their chemical properties.

The two NOES products custom-manufactured for MARCA by NSC differ in significant respects from other NOES or cold-rolled products, as described below.

**III. Customized Product History**

In 1998, NSC, in cooperation with Matsushita (MARCA's parent company) custom-designed the two specialty NOES products at issue for use by MARCA. The two specialty NOES products, MS-4K and MS-7, were designed specifically to be utilized in MARCA's high-speed automatic punching and lamination machines. MS-4K was designed to integrate two other grades, MS-1 and MS-4, used at the time, to improve MARCA's production efficiency. MS-7 was designed to meet Matsushita's demand for high-efficiency motors and had been used at its factories in Japan before 1998. MS-7 was introduced to MARCA in 1998 when MARCA decided to produce high-efficiency motors in the United States.

Prior to 1998, MARCA experienced difficulties utilizing standard NOES. Low production efficiency was caused by laminations sticking after annealing and by poor punching quality. Unstable magnetic properties and variation in steel thickness also reduced production efficiency because of die and lamination press problems. As a result, NSC and Matsushita engineered these two steel products – MS-4K and MS-7 – that satisfy MARCA's requirements in terms of magnetic properties (low core loss values), chemical composition, and physical and mechanical properties (*i.e.*, thickness, width, and hardness).

**IV. No Domestic Availability**

As noted above, in a letter dated November 13, 2001, NSC requested an exclusion for the two specialty NOES products that are the subject of this letter. Since this time, responsive comments have been submitted to the TPSC on behalf of two groups of domestic steel producers objecting to an exclusion for these specialty NOES products because the same or similar products can be produced in the United States.<sup>2</sup> Although MARCA cannot respond to the exact grounds stated in these responses, given the confidential nature of these submissions, MARCA wishes to make clear that no domestically-produced NOES product is substitutable for the two specialty NOES products (MS-4K and MS-7) MARCA purchases from NSC.

As described above, NSC is the only manufacture, worldwide, of the MS-4K and MS-7 NOES products imported by MARCA; these products are not manufactured by any U.S. steel company. Indeed, in 1998 these products were specifically designed to be used in MARCA's high-speed automatic punching and lamination machines. Although some U.S. steel companies (such as AK Steel and WCI Steel Inc.) manufacture certain types of NOES, their products are neither identical to, nor substitutable with, the custom-designed

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<sup>2</sup> See December 7, 2001 letter to the TPSC filed by Schagrin Associates on behalf of a number of steel companies and the Minimill 201 Coalition (Flat Products) at p. 60 ("Domestic Producers object to the exclusion of this product. [ ] is able to make this product."); December 6, 2001 joint filing by Dewey Ballantine LLP and Skadden, Arps, Slate, Meagher & Flom LLP on behalf of Bethlehem Steel Corporation, LTV Steel Company, Inc., National Steel Corporation, and United States Steel LLC at Cold-Rolled Products at p. 13 (claiming that "[ ] can produce an equivalent and substitutable product to the product as described").

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NOES product that MARCA receives from NSC. Specifically, the domestically-available steel is not suitable for use on MARCA's high-speed punching and lamination machines. These high speed punching machines are highly sensitive to variations in steel thickness, and the domestic producers have not been able to reduce thickness variation to the level required. In addition, the NOES products manufactured by domestic producers are not produced with insulation coating that would improve both magnetic and mechanical properties after SRA to a level required by MARCA. Rather, these products would require additional processing at MARCA's site, which is costly. Thus, the standard domestically supplied NOES products are not a realistic substitute for MARCA's business and operations.

**V. Exclusion Would Have Limited Impact on the Domestic Steel Industry**

As discussed above, the two NOES products at issue are designed for limited specific purposes (that is, for usage on MARCA's production equipment and to satisfy certain technical specification requirements) and are used to manufacture a limited range of products for a limited range of domestic end-users. MARCA's annual consumption of these two NOES products is approximately [10,000] to [12,000] MT/year.

Moreover, because the specific NOES products at issue (or any viable substitute) are not manufactured by the domestic industry, the exclusion of these specific NOES products would not (and, indeed, could not) cause any harm to the domestic industry members. Accordingly, we respectfully request that the TPSC recommend the exclusion of these products from any Section 203 remedy applicable to imports of steel products.

Thank you for your attention to this request. Should the TPSC have any questions relating to this request, please contact Ms. Pam Cagle, Manager, Manufacturing Services.

Sincerely,

T. Uchiura  
President and CEO  
MARCA

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